

MEDI-CAL REDESIGN UPDATE

MAY 13, 2004

Background

Governor Schwarzenegger's budget for fiscal year 2004-05 proposed to restructure the Medi-Cal program by obtaining a Medicaid Demonstration Waiver from the federal government that will provide California with the flexibility to continue to provide health care coverage to over 6.7 million currently eligible Californians, but do so in a more rational and affordable manner. This proposal reflects the Administration's belief that a redesign of the Medi-Cal program is necessary to meet the twin imperatives of maintaining health care coverage to eligible Californians while containing costs and maximizing efficiencies.

As a part of the May Revision, the Administration is providing an update to the Legislature, stakeholder groups, and interested members of the public on efforts to date to redesign Medi-Cal and its plan for moving forward with submission of a federal waiver by September 2004.

Scope, Role, and Cost of Medi-Cal

Medi-Cal, the State's version of the federal Medicaid program, is an essential source of health care for California's most vulnerable residents – promoting the health and well being of low-income children, supporting the ability of their parents to become self-sufficient, and providing critical services to seniors and disabled persons. Today, over 6.7 million low-income Californians (15.3 percent of the State's population) rely on Medi-Cal for health care services.

Medi-Cal is also the primary funding source for the State's mental health program and system of care for the developmentally disabled. In addition, Medi-Cal provides significant funding for California's health care safety net – the public and private hospitals that serve Medi-Cal beneficiaries and the uninsured. Even with the second lowest per capita costs of any Medicaid program in the nation, it is estimated that Medi-Cal will cost roughly \$31 billion in federal and State General Fund (GF) dollars in 2004-05. Medi-Cal is now the third largest component of the GF budget (14%).

Statement of Problem

To continue providing health care services to vulnerable populations, we must ensure the long-term financial viability of the Medi-Cal program. Since 1999, Medi-Cal GF costs have grown by over \$3 billion, a 41% increase. Much of this increase stems from program expansions and reforms that have added 1.2 million of the total 1.7 million new beneficiaries over the past five years, a 32% increase. Given demographic trends and rising health care costs, Medi-Cal will continue to consume a growing share of the State's GF absent program changes.

As a joint federal-state entitlement program, Medi-Cal must operate under a set of rigid rules and regulations that drive up costs and limit California's ability to ensure that necessary services are delivered in an efficient, effective manner. The federal Medicaid program model limits California's ability to modify Medi-Cal to accommodate changing demographics, new developments in health care, or fluctuations in the State's fiscal and budgetary climate.

Finally, the financial foundation for the State's safety net is Medi-Cal's use of intergovernmental transfers – payments from non-state entities to the State that are used to draw down federal funds. This financing model is under intense federal scrutiny and likely will need to be phased out in the near future.

Medi-Cal Redesign Goals and Objectives

To restructure Medi-Cal, the State will need relief from federal statutory and regulatory mandates. With a waiver of these federal requirements, California will have the flexibility to redesign the Medi-Cal program. Two overriding goals – both aimed at ensuring the continued provision of health care services to vulnerable populations – are central to this effort:

- Maintain current eligibility of low-income populations.
- Contain costs and maximize efficiencies.

The Administration's efforts seek to advance five principal objectives. While consistent with the objectives articulated in the Governor's January 2004 Budget, they have been modified to reflect the Administration's evolving views, as informed by the stakeholder process and an increased understanding of relevant policy issues. These objectives are as follows:

- Expand the use of organized systems of care that increase access, improve outcomes, and contain costs.
- Revise the Medi-Cal eligibility and enrollment process to make it more efficient and improve customer service.
- Tailor benefits to the needs of distinct Medi-Cal populations.
- Incorporate beneficiary cost sharing that promotes personal ownership and responsibility, aligns Medi-Cal with other publicly funded health programs, and encourages appropriate utilization of services.
- Stabilize financing of the State's safety net to ensure that hospitals have the resources to care for low-income and uninsured Californians.

Efforts To Date

As a part of the redesign process, the California Health and Human Services Agency (CHHSA) and the Department of Health Services (DHS) sought input on the Administration's proposed concepts for changes to the Medi-Cal program. With the support of The California Endowment (TCE) and the California Health Care Foundation (CHCF), the Administration conducted an extensive stakeholder process to solicit input from a wide-ranging community of stakeholders.

The Stakeholder Process

The stakeholder process was designed to ensure that the views and perspectives of beneficiaries, providers, counties and advocacy groups informed the Administration's thinking on elements of reform. The expected outcome of this process was not to produce a consensus on how the Administration should approach the redesign of the Medi-Cal program.

The stakeholder process began with two initial meetings organized and facilitated by CHHS in late January and early February. Subsequently, the following five workgroups were established:

- Benefit Design/Cost Sharing;
- Program Eligibility Simplification;
- Organized Service Delivery, including managed care;
- Aging and Disability issues; and
- Other Medicaid Financing and Savings Options.

CHCF and TCE arranged for an independent facilitator with the Pacific Health Consulting Group to organize the meetings and keep workgroup participants focused on the redesign principles. Approximately 640 stakeholders took part in the process by attending, or joining at a distance (via teleconference or webcast), at least one of the workgroups, which met a total of 19 times during March and April 2004. In addition, the Department of Mental Health facilitated two workgroups to obtain input on issues specific to specialty mental health services.

The goal of this process was to solicit stakeholder input on general concepts that would be addressed in restructuring the Medi-Cal program. Thus, by design, the workgroup process occurred prior to development of specific proposals. Although some participants indicated that they would have preferred to provide feedback on detailed proposals, they remain engaged in the process, which speaks not only to their commitment to advocate on behalf of their particular interests but also their willingness to examine ways to assure the future of the Medi-Cal program. Nearly all workgroup members felt that the concepts under consideration by the Administration represented significant policy changes that require more time for deliberation than the allotted two months.

Next Steps

Given the magnitude and complexity of the redesign effort, the Administration wants to carefully review and consider all available input and expertise before moving forward with significant and, in some cases, far-reaching initiatives. In addition, the Administration learned a great deal as a result of the stakeholder process, which just concluded at the end of April. While much remains to be done in terms of developing specific redesign proposals, the Administration is committed to moving forward with a

comprehensive redesign of the Medi-Cal program and intends to submit a waiver to the federal government this fall, as originally proposed.

In recognition of the scope and complexity of this undertaking, the Administration intends to submit a waiver proposal and legislative bill language on August 2. Submitting a separate proposal for the Legislature's consideration will allow the 2004 Budget Bill to move forward on schedule and will provide the Administration, Legislature and stakeholders the time necessary to fully explore and develop a comprehensive waiver proposal. In particular, the Administration intends to focus on the issue of hospital financing, which is central to supporting the State's safety net hospitals and to enabling broader reform in the Medi-Cal delivery system.

The Administration looks forward to working collaboratively with all parties to secure the necessary statutory changes before the end of the legislative session. Recognizing the need to achieve Medi-Cal savings in budget year 2005-06, if legislative approval of programmatic and financing reforms is not secured by the end of the session, the Administration will work with the federal government in September to secure any necessary plan amendments or waivers and return to the Legislature in January 2005 for concurrence.